

## Message Text

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PAGE 01 BERN 05634 011127Z  
ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04  
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-05 CEA-01 DODE-00 PA-02 PRS-01 L-03 H-02  
/115 W

-----018560 011132Z /20

R 301300Z NOV 77  
FM AMEMBASSY BERN  
TO SECSTATE WASHDC 5333  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
USMISSION GENEVA  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMCONSUL ZURICH POUCH

UNCLAS BERN 5634

USMTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY

PASS TREASURY AND FRB

EO 11652: N/A  
TAGS: EFIN, SZ  
SUBJ: SWISS FINANCIAL REVIEW/ WEEK OF NOV 20-26

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC FELL  
TO SF 2.16 IN NERVOUS AND HECTIC MARKET. GOLD  
PRICE ALSO DECLINED IN LARGE VOLUME SALES. INTEREST  
RATES ARE EXPECTED TO DECLINE FURTHER. GOVT  
ANNOUNCED NEW MEASURES AGAINST TAX FRAUD. SWISS  
NATIONAL BANK AND SWISS BANKERS' ASSOCIATION ARE  
TRYING TO CLARIFY LAST SUMMER'S AGREEMENT ON  
IDENTIFICATION OF DEPOSITORS. SOCIALISTS DEBATED  
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BANKERS ON INFLUENCE OF BANKS. END SUMMARY.

2. FOREIGN EXCHANGE: DOLLAR RATE AGAINST SWISS  
FRANC FELL TO NEW LOW SF 2.1605 FRIDAY IN HECTIC  
MARKET DOMINATED BY YEN APPRECIATION AGAINST DOLLAR.  
DEALERS ATTRIBUTED DOLLAR RATE DECLINE TO REPORTS  
US WILL CONTINUE RUN LARGE TRADE DEFICIT.

EXPECTATIONS OF POSSIBLE CHANGES WITHIN EUROPEAN  
SNAKE ADDED TO MARKET NERVOUSNESS. SNB PURCHASED  
\$50 MILLION MONDAY AND MADE FURTHER PURCHASES  
DURING WEEK. AGEFI EDITORIAL NOV 28 COMMENTED  
SWISS REALIZE CURRENT MONETARY GAME IS ONE WHERE  
"LOSER WINS" AND SWISS ONCE AGAIN MUST SUBMIT TO  
INERTIA OF US "SUPERMAN". SNB FOREIGN EXCHANGE  
HOLDINGS ROSE EQUIVALENT SF 939 BILLION FOR WEEK  
ENDING NOV 23 DUE TO SHORT TERM SWAPS WITH BANKS,  
FOREIGN EXCHANGE PURCHASES IN EXCESS CAPITAL EXPORT  
CONVERSIONS AND SF 70 MILLION IN ROOSA BOND  
REDEMPTIONS. RATES FOLLOW:

ITEM - 11/21(OPEN) - 11/25(CLOSE)

SPOT DOLLAR - 2.1990 - 2.1615

FORWARD DISCOUNTS  
(PERCENT PER ANNUM)

ONE MONTH - 4.97 - 5.11

TWO MONTHS - 3.99 - 4.25

THREE MONTHS - 4.34 - 4.04

SIX MONTHS - 4.51 - 4.61

TWELVE MONTHS - 4.44 - 4.46

SF/DM - 98.21 - 97.43

GOLD - 160.00 - 157.75

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3. GOLD: PRICE FELL TO 155 TUESDAY DUE LARGE VOLUME  
SALES, RECOVERING TO 160 WEDNESDAY BEFORE NEW DECLINE.  
DEALERS' PRICE FORECASTS RANGE FROM "UNSTABLE" AND  
"NO CLEAR BASIS" TO "POSSIBLE FURTHER DECLINE".  
HOWEVER, DEALERS EXPECT UNUSUAL PATTERN OF DOLLAR/SF  
EXCHANGE RATE AND GOLD PRICE BOTH DECLINING TO END  
SOON AND RETURN TO "NORMAL" INVERSE RELATIONSHIP.  
DEALERS DISCOUNTED POSSIBLE INCREASED SOVIET GOLD  
SALES; BELIEVE SOVIET GOLD SALES RESULT LONG-RANGE  
PLANNING RATHER THAN REACTION TO SUDDEN MARKET  
DEVELOPMENTS. SOVIETS REPORTEDLY SOLD 300 TONS SO  
FAR THIS YEAR, COMPARED RECORD 350 TONS 1976. AGEFI  
EDITORIAL NOV 23 STRESSED REASONS FOR PRICE DECLINE  
OUTWEIGH THOSE FOR RISE TO 200. AGEFI NOTED IN  
SUPPORT ITS VIEW POSSIBLE US EFFORTS STABILIZE  
DOLLAR EXCHANGE RATE, SMALLER 1978 US BUDGET  
DEFICIT TO HELP CONTAIN INFLATION, IMPROVED US  
STOCK MARKET, 46 TONS GOLD SOLD BY PORTUGAL IN 1977,  
POSSIBLE NEW SOVIET AND CHINESE GOLD SALES, AND NEW  
HOPES FOR MIDDLE EAST PEACE. AGEFI DISCOUNTED PRICE  
SQUEEZE ON NEW YORK AND CHICAGO FUTURES MARKETS

BECAUSE NEW YORK COMEX GOLD RESERVES NOV 11 WERE  
SUFFICIENT TO COVER 75 PERCENT DEC DELIVERIES.

4. CAPITAL AND MONEY MARKETS: STOCK MARKET WAS  
ACTIVE REFLECTING EXCHANGE MARKET DEVELOPMENTS.  
SKA SHARE INDEX ROSE TO 242.5 WEDNESDAY BEFORE CLOSING  
239.3. DEALERS HOPE FOR YEAR-END RALLY, DEPENDING  
UPON OUTCOME DEC 4 REFERENDUM ON FISCAL ISSUES.  
SNB NOV 23 STATEMENT SHOWED SF 800 MILLION INCREASE  
IN STERILIZATION ORDERS, BUT NO NEW MINIMUM BANK  
RESERVES ON FOREIGN LIABILITIES AS WAS REPORTED  
PREVIOUSLY. CREDIT SUISSE NOV BULLETIN REPORTED  
EARLY LOAN REPAYMENTS WERE SF 2.9 BILLION IN FIRST  
THREE QUARTERS 1977, TRIPLE AMOUNT SAME PERIOD 1976,  
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BRINGING NET NEW CAPITAL ON SWISS MARKET TO  
SF 3.6 BILLION, ONLY 40 PERCENT OF CORRESPONDING  
AMOUNT 1976. AVERAGE YIELD CONFEDERATION BONDS FELL  
TO 3.84. MARKET OBSERVERS EXPECT BANKS REDUCE  
THEIR CASH BONDS AND MORTGAGE INTEREST RATES.  
HIGHER INTEREST RATES NOT EXPECTED BEFORE SPRING  
1978. CREDIT SUISSE ANNOUNCED SF 100 MILLION LOAN  
AT 4 PERCENT FOR 15 YEARS. CANTON ZURICH WILL BORROW  
SF 40 MILLION AT 3.75 PERCENT FOR 12 YEARS. BRAZIL  
WILL RAISE SF 100 MILLION AT 5 PERCENT.

5. TAX FRAUD: FEDERAL COUNCIL ANNOUNCED NEW LAW AND  
ORDINANCE AGAINST TAX FRAUD EFFECTIVE JAN 1, 1978  
WHICH PROVIDE FOR NEW TAX INVESTIGATION AGENCIES  
AND CLARIFY RULES FOR REPORTING INCOME (ALSO APPLIES  
TO THIRD PARTIES HAVING INFO). PROFESSIONAL  
SECRECY IS MAINTAINED. SELF-EMPLOYED MUST KEEP  
BUSINESS RECORDS FOR TEN YEARS. DETAILED ACCOUNTS  
ARE REQUIRED FOR GROSS INCOMES OF SF 100,000. BANK  
SECRECY CAN BE LIFTED BY COMPETENT JUDICIAL AUTHORITY  
IN CASES WHERE FALSE, FRAUDULENT OR INCORRECT DOCUMENTS  
USED FOR TAX PURPOSES. FRAUD WILL BE PUNISHABLE BY  
UP TO THREE YEARS IN PRISON.

6. BANK SECRECY: SNB AND SWISS BANKERS' ASSOCIATION  
ANNOUNCED THAT SIX-MEMBER COMMITTEE CHARGED WITH  
DRAWING UP DETAILED INTERPRETATION OF JULY AGREEMENT  
ON BANKS' OBLIGATION TO IDENTIFY DEPOSITORS HAS  
COMPLETED DRAFT (THREE TIMES LENGTH OF ORIGINAL  
AGREEMENT). WHICH SHOULD BE APPROVED THIS YEAR.  
INTERPRETATIONS REPORTEDLY DEAL WITH BANKS'  
OBLIGATIONS TO MAKE SWORN STATEMENTS TO AUTHORITIES,  
DEFINE "COMICILED COMPANY", AND ESTABLISH POLICY ON  
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PROFESSIONAL SECRECY OF ATTORNEY ACTING AS CORPORATE AGENT (LEGAL LOOPHOLE IN GENTLEMAN'S AGREEMENT WHICH HAS NO LEGAL STANDING UNDER SWISS LAW). COMPROMISE WAS REPORTEDLY REACHED WHEREBY ATTORNEY WOULD SIGN SWORN STATEMENT THAT "HIS PRINCIPAL IS KNOWN AND THAT TERMS OF AGREEMENT NOT VILLATED" WHICH WOULD MAINTAIN PROFESSIONAL SECRECY BUT COMMIT ATTORNEY TO BANK AGREEMENT.

7. BANKING: SOCIALIST PARTY COMMISSION TO DRAFT INITIATIVE ON BANKING ARGUED IN DEBATE WITH BANKERS THAT BANKS EXERCISE EXCESSIVE INFLUENCE ON ECONOMY THROUGH CREDIT POLICY AND SEATS ON CORPORATE BOARDS. LARGEST THREE BANKS REPORTEDLY SERVE ON SOME 2,000 BOARDS. COMMISSION DISCLOSED THAT FRENCH SPEAKING SOCIALISTS FAVOR NATIONLIZATION OF BANKS. GERMAN SPEAKING GROUP PREFERS -DECONCENTRATION" OF BANKING ACTIVITY. SOCIALIST PARTY PRESIDENT HUBACHER SAID HE OPPOSED NATIONLIZATION AS CONTRARY TO SWISS CAPITALIST SYSTEM. UBS GENERAL MANAGER HOLZACH SAID EXISTING BANK INSPECTION RULES ARE SUFFICIENT AND EXCEED THOSE OF ANY OTHER SECTOR. HOLZACH SAID SOCIALIST SUGGESTION TO LIFT BANK SECRECY FOR FISCAL AND EXCHANGE MISDEMEANORS WOULD BE DANGEROUS BECAUSE THAT COULD LEAD TO EXCESSES AND INEQUITIES.  
WARNER

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## Message Attributes

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**Review Markings:**  
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